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COP26: A Small Step Forward on Climate Protection

The outcomes of COP26: a spirit of optimism on the global carbon markets and unresolved questions around climate finance.

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- The new multilateral capacity to discuss the gradual phase-out of coal is a political achievement of COP26.
- New carbon footprint and transparency rules improve the measurability and comparability of global climate protection.
- Spelling out Article 6 of the Paris Agreement is providing the impetus for the global carbon market.
- Much to the displeasure of many emerging and developing countries, key questions relating to climate finance, adapting to climate change and the issues around damage and losses remain largely unanswered.
- COP is emerging as the global platform for climate change initiatives with growing involvement from the business community. Among them are the Global Methane Pledge, the Green Grids Initiative - One Sun One World One Grid, the Agreement to End Deforestation by 2030, and the Glasgow Financial Alliance for Net Zero.
- The agreement between the EU and the United States to lift tariffs in the steel and aluminium sector and the intended cooperation on shared sustainability standards in this sector could be an indication of the emergence of a climate club. The trade policy consequences of this could have a mitigating effect on the EU's Carbon Border Adjustment Mechanism.

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The climate negotiations - favourable conditions

Glasgow's COP26 was an unusual COP (Conference of Parties) in a number of ways. First of all, it was held a year later than scheduled due to the coronavirus pandemic. Beyond that, governments negotiated in an economic environment characterised mostly by climate-focused reconstruction programmes and rapid economic recovery. The run-up to COP also revealed increasing social awareness of climate change, despite the fact that the political focus globally was directed at combating the pandemic. Presumably, the increase in this level of awareness has been driven by the increasingly visible and frequent climate catastrophes, as well as the ever-expanding and improving knowledge and insights given to us by climate science. These insights paint a very bleak picture of the future if no countermeasures are taken - something that the IPCC's (Intergovernmental Panel on Climate Change) most recent report also strikingly demonstrates.

COP26 also saw the United States returning to the world stage, staking its claim to leadership on climate policy. It was on this stage that they encountered China, which was also sending out climate policy signals with its carbon neutrality target for 2060, with plans for the introduction of the world's largest emissions trading scheme and the announcement that it would no longer build any coal-fired power stations abroad. The EU also initiated the comprehensive transformation of its economy towards climate neutrality by 2050, with its Green Deal and its massive Green Recovery Programme. These were defining parameters for COP.

This was already evident at the G20 summit in Rome, which was held the weekend before the climate negotiations began and which essentially launched them. For the most part, the climate policy outcomes of the G20 summit can be broadly summarised as being a re-commitment by all G20 countries to the key objectives of the Paris Agreement, which shows just how significant the United States is in terms of climate policy. Under the Trump administration, the United States withdrew from the Paris Agreement and made no commitment to it during this time.

The G20 summit also ushered in a new multilateral conversation around the global phasing out of coal. Admittedly, it only included the targeted end to international support for the construction of coal-fired power stations, unless they use carbon capturing technologies. That this issue is now being discussed openly at the highest levels of government can be viewed as a paradigm shift in the global discourse, something that became apparent at the COP that followed the summit.

1.5°C and the Glasgow Climate Pact

The results of the 26th climate negotiations are summed up in the "Glasgow Climate Pact". They outline a range of issues that will shape the global climate agenda over the next ten years. The pact forms a climate policy reference framework, with many very specific statements against which all 197 member states of the United Nations Framework Convention on Climate Change (UNFCCC) must be measured. The pact also sends important signals to the business community by spelling out key elements of the Paris Agreement on climate change, which in turn should stimulate further investment in global decarbonisation.

The measurable traceability of climate protection is already reflected in the way the core target of the Paris Agreement is quantified. It calls for limiting the increase in the global average temperature to 2°C above pre-industrial levels, and for additional efforts to be made to allow a maximum increase of 1.5°C. This target has been set to reduce global carbon emissions by 45% by 2030 compared to 2010 levels, and to reach net zero emissions around 2050. That 2030 climate target received a lot of attention in the political discussion, being a key intermediate step for limiting the increase in the global average temperature to 1.5°C.

Back in 2015, when the Paris Agreement was concluded, it was recognised that existing climate targets would not be sufficient to achieve the 1.5°C target. As a result, it was agreed that the UNFCCC member states would announce more ambitious national climate targets (Nationally Determined Contributions, NCDs) in five-year cycles. This process was delayed by the coronavirus pandemic, meaning that most countries only updated their NDCs in the run-up to and during COP26 (2021 instead of 2020). At present, some 140 signatory countries to the Paris Agreement - covering around 90% of global emissions - have declared long-term net-zero targets for the period 2040-2070. Among them are the major emitters; the United States (2050), China (2060), the EU (2050), India (2070), Japan (2050) and South Korea (2050). Nevertheless, there is still a considerable measures and targets gap for achieving the 2030 climate goal, which will most likely result in a failure to meet the 1.5°C target. This is followed by broad scepticism, which arises from the extent to which all short-term and long-term measures stated in the current NDCs are actually implemented.

It was against this backdrop that a comprehensive work programme was adopted at COP26, which aims to encourage countries to submit updated and 1.5°C compatible NDCs by COP27, which will take place in Egypt during 2022. Within the context of the discussion on new reduction targets, a notable qualitative shift in discourse also became apparent - an absolute novelty, at least as far as the official part of the annual climate negotiations was concerned. This is how the global coal phase-out - which had been the subject of increasingly widespread debate in the run-up to the G20 summit the weekend before - was included in the official COP26 outcome document. In the final stages of the negotiations, for instance, concrete measures to achieve the climate goals called for the "phasing down" of coal use and the acceleration of the phase out of inefficient subsidies for fossil fuels. Although China and India were heavily criticised for their choice of the watered-down wording "phase down" instead of "phase out", this nevertheless represents considerable and significant progress for these two countries. They are both among the world's largest consumers of coal, and their energy security is fundamentally dependent on its use.

Rules for the global carbon market

COP26 has also set standards in the introduction of common accounting and transparency rules for NDCs. Essentially, the aim here is to ensure that NDCs reported to the UNFCCC are made comparable in order that a truly global assessment can be made. Indeed, some countries have been accused of artificially downgrading their carbon emissions or inflating the absorption capacity of natural carbon sinks such as forests. The aim now is to ensure that carbon emissions are measured in the same way everywhere. To that end, regular transparency reports as well as a national inventory report are to be submitted by 2024, which will undergo expert review. In addition, there is an agreement on a common five-year timeframe for the submission of NDCs from 2031.

The introduction of common reporting and transparency rules also lays the foundations for the regulation of carbon or emissions market mechanisms. These allow countries that are signatories to the Paris Agreement to “credit” each other's emission reductions. This enables countries to purchase emission reductions directly from other countries and then add them to their own NDCs. The issue of double counting proved to be a difficult point of negotiation in this context. The intention behind this, is that the mitigation outcome (Internationally Transferred Mitigation Outcomes, ITMOs) achieved by a country that is sold to another country must be “un-counted” and can no longer be attributed to the country of origin's mitigation pledge. The “debt” that is incurred here is rebalanced and made comprehensible by the “corresponding adjustments.”

There will also be a central trading point for emission allowances - similar to the Clean Development Mechanism (CDM) under the Kyoto Protocol. One of the ways in which these carbon credits are generated is through emission reductions resulting from projects that, for instance, promote the construction of wind turbines as an alternative to coal-fired power stations. An additional agreement was reached that 5% of the proceeds from offsets will be collected and go towards an adaptation fund for developing countries. This is followed by the agreement to set aside 2% of the emission allowances generated.

There was also a solution for dealing with the credits generated under the outgoing CDM. Many of these CDM credits are held by companies and public institutions, particularly in emerging economies. The price for these credits is currently very low. These will only be partially incorporated into the market mechanism of the Paris Agreement, but this is by no means an optimal solution, as these credits do not meet the new standards, they date back to very old projects, and consequently do not deliver any additional climate benefits. Therefore, it was stipulated that only credits that were issued after 1 January 2013 would be eligible for use, and only for a country's first NDC. This was ultimately the price that had to be paid to get all states to agree to the new carbon market rules.

The significance of the carbon accounting rules formulated within the framework of the Paris Agreement cannot be underestimated. They send out a global signal to both public and private sector entities to invest in climate protection, and to potentially earn money through the generation of the respective carbon credits. Numerous companies specialising in carbon trading and traceability have already begun to position themselves. The global carbon market that is now emerging is also likely to be the starting point for new financial streams for climate protection in developing countries.

Climate finance, adaptation, loss and damage

Climate finance was another central theme of COP26. It was notably the breaking of the promise on the part of developed countries to spend $100 billion a year on climate protection from 2020 to 2025 that sparked a great deal of resentment among emerging and developing nations. The developed countries indicated that they would not be able to raise this amount until 2023.

For emerging and developing countries, financing adaptation to climate change is a priority and the call for a more precise global adaptation target similar to the 1.5°C objective is becoming increasingly louder. The Glasgow-Sharm-el-Sheikh work programme was set up at COP26 as a direct attempt to address some of these issues. It will operate for two years, with the aim of better entrenching the subject of adaptation to climate change as a whole in the UNFCCC. This is followed by the demand that financial assistance from developed countries for adaptation to climate change be doubled by 2025, compared to 2019. The Adjustment Fund and the Least Developed Countries Fund also received further funding boosts.

It was the developing countries in particular who pressed for the issue of climate-related damage and loss to be dealt with more strongly at COP26. The Warsaw International Mechanism for Loss and Damages, established in 2013, has however still not been formalised. Instead, the Santiago Network was made operational to help developing countries vulnerable to the losses and damage caused by the impacts of climate change. However substantial progress in this field appears difficult. In the end, it was only possible to establish a Glasgow Dialogue to continuously bring together the relevant stakeholders in order to develop solutions.

Initiatives

This year's COP was not only the venue of the official UNFCCC climate negotiations, but also the platform for the launch of a large number of additional climate protection initiatives. The EU and the United States presented their joint Global Methane Pledge initiative, with more than 100 countries that have joined agreeing to cut their methane emissions under the Pledge. China, while not participating, *did* declare its willingness to cooperate on methane reduction, and many other issues, as part of a bilateral cooperation with the United States - something that received a lot of coverage and helped spur the climate negotiations on during a critical time. The goal of the Global Methane Pledge is to reduce methane emissions by 30% by 2030, on 2020 levels. Although methane occurs in smaller quantities than carbon dioxide, it has a much more significant impact on the climate and contributes more to global warming. This current initiative is predicated on the fact that methane is broken down much more quickly in the atmosphere than carbon dioxide. This means that a rapid reduction of methane - which escapes into the atmosphere during oil production or from agriculture, for example - could have a swift and positive effect on the climate.

Another initiative that received a lot of attention was the Green Grids Initiative – One Sun One World One Grid, that is being headed by the governments of India and the UK. The India-based International Solar Alliance and the World Bank are partners in the initiative. They are aiming to contribute to climate protection and the decarbonisation of the energy supply by interconnecting renewable energies from the sun and wind on a supra-regional level. One of the first steps is to connect India's power grid with the Middle East, South Asia and Southeast Asia. The next step is to link up to Africa and then to establish global interconnectivity.

There was also a lot of interest in an agreement to end deforestation by 2030, with more than 100 signatory countries (including Brazil, Russia, Indonesia and China). This agreement is designed to reduce financial incentives that lead to deforestation and many countries have already expressed a willingness to contribute funds to the agreement. Furthermore, major financial institutions have committed to no longer invest in companies that support deforestation. The agreement is viewed as somewhat of a milestone. It has also been the subject of criticism, however, because it lacks binding control mechanisms, and a similar agreement made in 2014 is now deemed to be ineffective.

COP26 also provided the platform for the announcement of the establishment of the International Sustainability Standards Board (ISSB). Up to now, the ISSB has been best known in the financial sector, but its significance in terms of climate policy is likely to be considerable. The standards being developed by the ISSB could bring uniformity to what is currently a patchwork of environmental, social and governance (ESG) reporting practices. This would give them a significant influence on future investment decisions worldwide.

The EU's agreement with the United States to reduce trade tariffs in the steel and aluminium sectors – measures that date back to the Trump administration - sets a new and significant tone for climate policy in relation to trade policy. They both also committed to the promotion of green or low-carbon steel and aluminium. This agreement may become even more significant given that it concerns the EU's Carbon Border Adjustment Mechanism, which proposes additional carbon tariffs on the import of carbon intensive goods. This could already be a prototype model for a climate club, which could offer a solution to potential trade conflicts arising from the EU's Carbon Adjustment Mechanism.

Beyond that, there were many other initiatives such as the Movers Coalition launched by the United States, the Beyond Oil and Gas Alliance, the Glasgow Financial Alliance for Net Zero, and the Declaration on Zero Emission Cars and Vans.

Outlook

The outcomes of the 2021 climate negotiations in Glasgow represent an important benchmark for the implementation of the Paris Agreement. The new transparency and carbon accounting rules spelled out in the Paris Agreement will become a consolidating factor for a large number of voluntary and mandatory carbon markets that have existed in parallel up to now. This may ultimately give rise to new climate finance streams, which will make it more attractive for the private sector to engage in climate action.

One particular political gain from COP26 is the emergence of a new multilateral voice on the issue of phasing down global coal use. This is expected to intensify in the coming years. Whether this will actually lead to a significant reduction in coal use or, more importantly, trigger investment in the development of carbon separating technologies still remains to be seen.

The multitude of voluntary initiatives with extensive private sector participation show that the annual climate negotiations have also become an important economic conference. There is a re-think going on within industry and in the financial sector in particular, where the search is on for new business models that will drive global decarbonisation. So, it is not surprising that the EU and the United States chose COP26 as the platform for their agreement to dismantle steel and aluminium tariffs, while at the same time striving for cooperation on common sustainability standards in this sector. This agreement could also be of major importance for carbon intensive industries worldwide, which will be faced with higher carbon costs as a result of the EU's planned Carbon Border Adjustment Mechanism.

To the great displeasure of many emerging and developing countries, key questions of climate finance, adaptation to climate change and the issue of damage and loss remain unanswered. In essence, the question is whether climate policy in the area of reducing carbon emissions, articulating a global adaptation target or clarifying the issue of liability for climate-related damage and loss, will be followed by binding financing measures. Although some progress has been made, these issues will continue to be a major challenge for future climate negotiations.

Imprint

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